

Balanced Fund

Annual Financial Report
for the year ended 30 June 2021



Table of contents

DIRECTORS' REPORT	4
LEAD AUDITOR'S INDEPENDENCE DECLARATION	10
FINANCIAL STATEMENTS	12
Statement of Profit or Loss and Other Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
NOTES TO THE FINANCIAL STATEMENTS	17
DIRECTORS' DECLARATION	40
INDEPENDENT AUDITOR'S REPORT	42

Directors' Report

Directors' Report

For the year ended 30 June 2021

The Directors of Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Balanced Fund ("the Scheme") present the Directors' report together with the financial report of the Scheme for the year ended 30 June 2021 and the accompanying independent auditor's report.

RESPONSIBLE ENTITY

Australian Ethical Investment Limited (ABN 47 003 188 930) serves as the Responsible Entity for the Scheme. The registered office and principal place of business for the Responsible Entity is:

Registered office:

Boardroom Pty Limited
Grosvenor Place
Level 12, 225 George Street
Sydney NSW 2000

Principal place of business is:

Level 8, 124 - 130 Pitt Street
Sydney, NSW 2000

The following persons were Directors of Australian Ethical Investment Limited (AEIL) during the period under review and up to the date of this report unless otherwise indicated:

- John McMurdo, Managing Director and CEO
- Kate Greenhill
- Stephen Gibbs
- Mara Bun
- Michael Monaghan
- Julie Orr

PRINCIPAL ACTIVITIES AND STATE OF AFFAIRS

The principal activity of the Scheme is to pool investors' savings to invest in a diversified portfolio of asset types, in accordance with the investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's Constitution. The Constitution of the Scheme authorises investments in a range of assets which may include cash, property, fixed interest securities, and both domestic and international equities. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

There were no other significant changes in the nature of the Scheme's principal activities during the year and there were no significant changes in the Scheme's state of affairs, except those highlighted in the review of operations.

REVIEW OF OPERATIONS

The operational challenges that Australian Ethical has faced are negligible compared to the heavy human, social and economic toll that is being wrought worldwide by the pandemic. As an organisation we extend our sympathies to all those who have been affected, and our gratitude to those on the frontline.

Despite the lockdowns that reverberate across the country, our business has proven to be exceptionally resilient by delivering outperformance for investors, members and shareholders despite the ongoing volatility and uncertainty.

The Responsible Entity continues to monitor the COVID situation and our employees' wellbeing remains front of mind. This includes their day-to-day health and safety as well as their ongoing mental health. The business has strict COVID-safe practices in place and has implemented creative ways to stay connected. Our unique culture has helped us withstand the considerable upheaval, and our pre-pandemic flexible working policy has meant employees have been able to choose a working arrangement that suits their individual circumstances.

As a result of these measures, and a robust crisis management plan, we have continued to operate effectively with minimal disruption to business-as-usual operations.

The Scheme's liquid assets are valued daily at fair value based on a market price where the security is traded on a properly regulated market. The liquid asset classes (e.g. units in unlisted trusts and cash) are the primary source of liquidity to meet the redemption, distribution, and expense obligations of the Scheme. At all times during the period, requests for redemptions have been met through available cash or via the sale of liquid investments at fair value.

Overview

The investments of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 2 October 2018.

Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance Calculation of Return. The Scheme achieved the following total returns for the year:

- Retail class 18.30% (2020: 1.53%); and
- Wholesale class 19.34% (2020: 2.45%).

Distributions paid and/or payable

Distributions paid and/or payable by the Scheme during the year are shown in the accompanying Statement of Profit or Loss and Other Comprehensive Income.

As per Note 11 the Scheme paid interim distributions to the classes as follows:

- Retail class of Nil (December 2019: 0.53) cents per unit;
- Wholesale class of 0.98 (December 2019: 1.27) cents per unit; and
- Zero class of 1.52 (December 2019: 1.82) cents per unit.

The year end distributions payable are as follows:

- Retail class of 5.16 (June 2020: Nil) cents per unit;
- Wholesale class of 6.88 (June 2020: 0.69) cents per unit; and
- Zero class of 7.66 (June 2020: 1.53) cents per unit.

An interim distribution of \$17,220,595 was paid in January 2021 and a final distribution of \$102,846,368 was paid in July 2021.

The prior year final distribution of \$15,093,880 was paid in July 2020.

Net assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2021 was \$2,764,632,432 (30 June 2020: \$1,882,769,487).

Fees

Responsible Entity fees per annum charged for the year were as follows:

- 1.75% for the retail class reduced to 1.42% effective 1 June 2021 (2020: 1.75%);
- 0.85% for the wholesale class reduced to 0.76% effective 1 June 2021 (2020: 0.85%); and
- Nil for the zero class (2020: Nil). Institutional investors are included in this class and are subject to separate fee arrangements.

Management costs as reported in the Scheme's Product Disclosure Statement include 0.11% (retail class) and 0.10% (wholesale class) indirect costs attributable to fees and costs of specialist asset managers in unlisted property trusts and alternative assets. These additional costs form part of the net performance of the Scheme however are not payable to the Responsible Entity.

Climate change

For more than 30 years, Australian Ethical has been investing to protect our planet. During these three decades, the scientists with the Intergovernmental Panel on Climate Change (IPCC) have been issuing major reports about the state of the climate, gradually expressing more certainty about what is happening and why.

The latest report, released on 9 August 2021, confirmed what we expected: "It is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred."

In other words, the climate crisis is not just a threat to future generations; it is a threat that we are already feeling the consequences of today. If we continue the current global trajectory, the crisis will only worsen, deepening the impact of irreversible changes to our world.

The principal direct impact of climate change on the Scheme is its impact on the direct and indirect investment portfolio. The prospects and value of the businesses we invest in are exposed to risks and opportunities flowing from the many effects of climate change.

Physical impacts like sea level rise and extreme weather are already changing where and how buildings and infrastructure can be safely built. Changes in temperature and rainfall are affecting the productivity and viability of different types of agriculture.

Achieving the Paris goals of limiting the increase in the global average temperature to below 2°C above preindustrial levels, and then to 1.5°C, is essential, but not easy. It will require a complete transformation of the way the world produces and consumes energy, as well as radical measures to cut emissions from other key sources such as transport, construction, land use and agriculture. It will also require ambitious climate policies from governments.

We identify, assess, and manage material climate-related investment risks through our ethical investment process. All investments are screened according to the 23 principles of our Ethical Charter which is embedded in our Constitution. Our investment screening and company engagement guides us to sectors and companies which are aligning their businesses with the transition needed to limit global warming to 1.5 degrees. These companies are better positioned to manage many climate-related risks, such as the risk of introduction or increase in carbon pricing. However, the effects of climate change will be felt across the economy and society. Higher global warming threatens to disrupt trade and financial markets and carries significant risk of loss to all managed investment schemes.

Our ethics research team monitors existing and emerging climate-related risks using diverse information sources. The team monitors developments in:

- scientific understanding of the rate and impacts of global warming;
- domestic and international climate policy and regulation;
- technological innovation in climate mitigation and adaptation.

Our ethical screening and engagement approach focuses on the need to reduce emissions to limit dangerous climate change, but also recognises it is crucial that companies have business models and strategies which are adaptable to the physical impacts of current and future climate change.

(I) INVESTMENT PORTFOLIO MANAGEMENT

Our ethical research defines our sustainable investment universe, guiding us to companies better positioned to manage many risks arising from a transition to net zero emissions. Our ethical assessment of the climate impacts of companies and industry sectors and their products and services can also assist us in identifying climate-related financial risks and opportunities and feed into our buy, sell and portfolio management decisions. For example, company prospects and valuations in the energy sector may be affected by our assessment of the future regulatory environment for the sector.

(II) THE RESILIENCE OF OUR REAL ESTATE AND INFRASTRUCTURE INVESTMENT

Real estate and infrastructure are exposed to many physical impacts of different levels of global warming. Greater extremes of heat and cold raise operating costs and in some cases will threaten operational viability. Increased frequency and severity of wind, fire, storms, and flooding mean many assets will suffer significant damage more often, increasing repair costs and the need for additional investment to protect them. Some buildings and infrastructure will no longer be capable of fulfilling their original function and will become liabilities rather than assets, with owners required to dismantle or decommission them. We rely heavily on the management of climate-related risks by our external property and infrastructure managers.

LIKELY DEVELOPMENTS

The Responsible Entity continually reviews the Scheme and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors. The Responsible Entity plans to continue to invest in line with the strategy set out in the Product Disclosure Statement.

EVENTS OCCURRING AFTER THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2021 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

During the period between the end of the financial year and the date of this report, there were no items, transactions, or events of a material and unusual nature likely in the opinion of the Responsible Entity, to significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

INDEMNITIES AND INSURANCE PREMIUMS FOR THE RESPONSIBLE ENTITY AND AUDITOR

No insurance premiums are paid for out of the assets of the Scheme for insurance cover provided to the Responsible Entity, its officers or auditor of the Scheme. Where the Responsible Entity acts in accordance with the Scheme's Constitution and the law, it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is not indemnified out of the assets of the Scheme.

ROUNDING OF AMOUNTS

The Scheme is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

RELATED PARTY DISCLOSURES

Fees paid to the Responsible Entity and its associates out of Scheme assets is shown in Note 14 of the attached financial statements.

ENVIRONMENTAL REGULATION

The operations of the Scheme are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory legislation.

AUDITOR'S DECLARATION

The auditor's independence declaration is included on page 10 of the annual report and forms part of the Directors' report for the financial year ended 30 June 2021.

Signed in accordance with a resolution of the Directors of Australian Ethical Investment Limited.



John McMurdo
Managing Director
Australian Ethical Investment Limited
21 September 2021

Lead Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Ethical Investment Limited, the Responsible Entity
for the Australian Ethical Balanced Fund:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Ethical
Balanced Fund for the financial year ended 30 June 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'A.R.', with a horizontal line extending to the right.

Andrew Reeves
Partner

Sydney
21 September 2021

Financial Statements

Financial Statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Investment income			
Interest	2	6	44
Dividends	3	117,792	55,844
Net change in fair value of financial assets	4	317,374	(16,808)
Other income		69	1,494
Net investment income		435,241	40,574
Operating expenses			
Management fees	14	2,673	2,448
Operating expenses before finance costs		2,673	2,448
Profit from operating activities		432,568	38,126
Finance costs			
Distributions paid and payable to unitholders of the Scheme	11	(120,067)	(31,380)
Change in net assets attributable to unitholders (total comprehensive income)	6	312,501	6,746

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	2021 \$'000	2020 \$'000
Assets			
Cash and cash equivalents	7	30,817	3,147
Receivables	8	94,341	33,414
Financial assets held at fair value through profit or loss	9	2,742,369	1,861,339
Total assets		2,867,527	1,897,900
Liabilities			
Payables	10	48	37
Distribution payable	11	102,846	15,094
Total liabilities		102,894	15,131
Net assets attributable to unitholders	6	2,764,633	1,882,769
Represented by:			
Net assets attributable to unitholders at net asset value price		2,868,497	1,898,881
Distribution payable to unitholders of the Scheme		(102,846)	(15,094)
Adjustments arising from different unit pricing and accounting valuation		(1,018)	(1,018)
Total net assets attributable to unitholders	6	2,764,633	1,882,769

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 'Financial Instruments: Presentation'. As such the Scheme has no equity and no items of changes in equity at the start and end of the year.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Interest received		6	58
Dividends received		5,690	6,929
Other income received		82	1,494
Management fees paid		(2,671)	(2,622)
Net cash provided by operating activities	13	3,107	5,859
Cash flows from investing activities			
Proceeds from sale of investments		47,166	289,783
Purchase of investments		(559,651)	(695,017)
Net cash used in investing activities		(512,485)	(405,234)
Cash flows from financing activities			
Proceeds from issue of units		572,184	438,220
Payments for redemption of units		(34,737)	(50,506)
Distributions paid to unitholders		(399)	(1,347)
Net cash provided by financing activities		537,048	386,367
Net increase/(decrease) in cash and cash equivalents		27,670	(13,008)
Cash and cash equivalents at 1 July		3,147	16,155
Cash and cash equivalents at 30 June	7	30,817	3,147

Notes to the Financial Statements

Notes to the Financial Statements

For the year ended 30 June 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Australian Ethical Balanced Fund ("the Scheme"), a for-profit entity, is a registered managed investment scheme under the Corporations Act 2001. The Scheme was constituted on 2 November 1999 and will terminate on 1 November 2079 unless terminated earlier in accordance with the provisions of the Scheme's Constitution. The Scheme is domiciled in Australia. The financial statements of the Scheme are for the year ended 30 June 2021.

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

BASIS OF PREPARATION

These financial statements are presented in Australian dollars which is the functional currency and are prepared on a fair value basis with financial assets designated at fair value through profit or loss and derivatives which are measured at fair value, with the exception of receivables and payables which are measured at cost.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The Statement of Financial Position is prepared on a liquidity basis. All balances including investments are readily converted to cash, except for unlisted alternative assets (classified as financial assets) held at fair value.

ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Scheme's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that may have a financial impact on the Scheme and are believed to be reasonable under the circumstances.

The areas involving estimates or judgements is the assessment of fair value of early-stage venture capital partnerships and unlisted infrastructure assets (Note 9).

Refer to Note 15(g) Financial risk management and financial instruments - fair values, which contains information about estimation of fair values of financial instruments.

Refer to Note 16 Investment in unconsolidated structured entities which contains information about judgements made in relation to whether the Scheme meets the definition of an investment entity.

Management have considered the impact from the ongoing COVID-19 pandemic and its impact on the financial statements. The areas considered as being potentially affected were the assumptions within our market risk disclosures and the valuation of financial assets. Despite the volatility in markets during the year, the Scheme has experienced growth with positive net inflows and strong investment performance.

The fair value management principles applied to the asset valuations include impacts from the pandemic and are consistent with the 30 June 2020 annual financial report. The Scheme has not been over-exposed to the industries worst affected by COVID-19 and as a result management have not made any additional adjustments to any estimates or valuations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value. Cash and cash equivalents are used by the Scheme in the management of short-term commitments.

FAIR VALUE MEASUREMENT PRINCIPLES

Financial instruments comprise financial assets held at fair value through profit or loss, receivables, cash and cash equivalents, payables, and distributions payable.

The Scheme can invest into a variety of assets, including property, fixed interest securities, unit trusts, and both domestic and international equities. Generally, valuation information is obtained from third party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security;
- quoted 'bid' prices on securities; and
- redemption prices published by the relevant Responsible Entity, for investments into unlisted unit trusts.

For certain investments, prices cannot be obtained from the above sources. In these instances, valuations obtained from service providers are estimated through the use of valuation models which are consistent with accepted industry practice and incorporate the best available information regarding assumptions that market participants would use when pricing the assets or liabilities. Irrespective of the method used by third party industry standard service providers to obtain valuations, prices achieved in actual transactions may be different.

Classification

On initial recognition a financial asset is classified as measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income. Financial liabilities are classified as measured at amortised cost or fair value through profit or loss.

Recognition and initial measurement

A financial instrument is recognised when the Scheme becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are accounted for at trade date (i.e. the date the Scheme commits itself to purchase or sell the asset).

Measurement

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income. All other financial instruments are carried at amortised cost using the effective interest rate method less any recognised impairment.

Financial liabilities arising from redeemable units issued by the Scheme are carried at the redemption amount representing the unitholders' rights to the residual interest in the Scheme's assets, effectively the fair value at the reporting date.

Derecognition

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Scheme neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Scheme is recognised as a separate asset or liability. The Scheme derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Impairment of financial assets held at amortised cost

AASB 9 requires an 'expected credit loss' model to apply to financial assets measured at amortised cost, contract assets and debt instruments, but not equity instruments held at fair value through profit or loss. The financial assets at amortised cost consists of trade receivables and cash and cash equivalents.

Offsetting

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Derivative financial instruments

In accordance with the Investment Mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

RECEIVABLES

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC). Unsettled sales are amounts due from brokers for securities sold that have not been received at reporting date. Trades are recorded on trade date and normally settle within two business days.

PAYABLES

Payables are carried at amortised cost and may include amounts for unsettled purchases, accrued expenses and other payables such as GST and redemption monies owing by the Scheme. Unsettled purchases are amounts due to brokers for securities purchased that have not been paid at reporting date. Trades are recorded on trade date and normally settle within two business days. Accrued expenses include management fees payable.

DISTRIBUTIONS PAID AND PAYABLE

In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Profit or Loss and Other Comprehensive Income as 'Finance costs'.

Responsible Entities of eligible MITs who elect into the new attribution managed investment trust (AMIT) regime are required to calculate the income entitlements of unitholders on an 'attribution' basis, which will be reflected in the

AMIT member annual (AMMA) statement. The AMMA statement (previously the tax statement) is provided to each person or entity who received a distribution from the Scheme during the income year. This event has no impact on the classification of net assets attributable to unitholders as liabilities in the financial statements.

CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising from fluctuations in the value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

REVENUE

Interest income

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues. Interest income is recognised on a gross basis, including withholding tax. Interest is measured using the effective interest rate method.

Dividend income

Dividend and distribution income relating to exchange-traded equity investments is recognised as dividend income in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date. Income distributions from other managed investment schemes are recognised in the Statement of Profit or Loss and Other Comprehensive Income as dividend income in accordance with the declaration set out in their Constitutions.

In some cases, the Scheme may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Scheme recognises the dividend income with a corresponding increase in investments.

INCOME TAX

Under current income tax legislation, the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the beneficiaries (the unitholders). The income of the Scheme is to be attributed to unitholders in accordance with the Scheme's Constitution which requires the distribution of the net accounting income for the year.

Deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Scheme to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Scheme's Constitution.

NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

In accordance with AASB 132, unitholders' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as 'Net assets attributable to unitholders'. The units can be put back to the Scheme at any time for cash equal to the proportionate share of the Scheme's net asset values. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Scheme. Changes in the value of this financial liability are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

EXPENSES

All expenses, including management fees, are recognised in the profit or loss on an accruals basis.

STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET ADOPTED

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2021 reporting period and have not been early adopted by the Scheme.

NOTE 2 – INTEREST INCOME

	2021	2020
	\$'000	\$'000
Bank interest	6	44
Total interest income	6	44

NOTE 3 – DIVIDEND INCOME

Dividend income from securities designated at fair value through profit or loss	117,792	55,844
Total dividend income	117,792	55,844

NOTE 4 – NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS

Unrealised gain/(loss) arising on financial assets designated at fair value through profit or loss	310,150	(7,077)
Realised gain/(loss) arising on the disposal of investments	7,224	(9,731)
Net change in fair value of financial assets	317,374	(16,808)

NOTE 5 – ISSUED UNITS

Each unit represents a right to an individual share in the Scheme per the Constitution. Zero class units are issued to other schemes managed by the Responsible Entity, the Australian Ethical Retail Superannuation Fund (AERSF), and institutional investors. Institutional investors are not charged a direct fee through the Scheme but are subject to separate fee arrangements. All other rights attached to zero class units are the same as those of the other classes.

	2021	2020
	Units	Units
Retail class		
On issue at beginning of period	62,924,248	59,531,450
Issued	19,102,379	16,124,012
Transferred to other classes	(32,642,351)	(4,911,664)
Redeemed	(4,491,268)	(7,819,550)
On issue at period end	44,893,008	62,924,248
Wholesale class		
On issue at beginning of period	42,919,344	29,256,544
Issued	20,114,352	14,115,218
Transferred from other classes	32,584,861	4,911,088
Redeemed	(5,579,517)	(5,363,506)
On issue at period end	90,039,040	42,919,344
Zero class		
On issue at beginning of period	965,974,490	737,573,396
Issued	273,699,599	244,203,398
Redeemed	(8,202,713)	(15,802,304)
On issue at period end	1,231,471,376	965,974,490

NOTE 6 – NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders. Daily applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer a redemption of units if the exercise of such discretion is in the best interest of the unitholders.

The objective of the Scheme is to provide unitholders with returns in accordance with the Product Disclosure Statement. The Scheme aims to provide investors with a balance between capital growth and a moderate level of income through a diversified portfolio of assets. The Scheme is not subject to any externally imposed capital requirements.

	2021	2020
	\$'000	\$'000
Opening balance	1,882,769	1,434,953
Issued	572,184	437,970
Distributions reinvested	31,916	53,606
Redeemed	(34,737)	(50,506)
Change in net assets attributable to unitholders	312,501	6,746
Net assets attributable to unitholders	2,764,633	1,882,769

NOTE 7 – CASH AND CASH EQUIVALENTS

Cash at bank	30,817	3,147
Total cash and cash equivalents	30,817	3,147

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash includes cash at bank and cash on deposit.

NOTE 8 – RECEIVABLES

Distributions	94,285	33,355
GST	56	59
Total receivables	94,341	33,414

NOTE 9 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2021 \$'000	2020 \$'000
Designated at fair value through profit or loss			
Unit trusts			
Unlisted Australian Ethical trusts		2,441,540	1,655,860
Unlisted property trusts		260,184	182,861
Unlisted infrastructure		23,005	8,142
Limited partnership interests		17,640	14,476
Financial assets at fair value through profit or loss	15	2,742,369	1,861,339

The Scheme's accounting policy on fair value measurements is disclosed in Note 1. The limited partnership interests represent investments in three separate diversified portfolios of alternative assets held at fair value.

NOTE 10 – PAYABLES

Management fees	48	37
Total payables	48	37

NOTE 11 – DISTRIBUTIONS PAID AND PAYABLE

Interim distribution paid	17,221	16,286
Distributions payable	102,846	15,094
Total distributions paid and payable	120,067	31,380

The Scheme paid interim distributions to the classes as follows:

- Retail class of Nil (December 2019: 0.53) cents per unit;
- Wholesale class of 0.98 (December 2019: 1.27) cents per unit; and
- Zero class of 1.52 (December 2019: 1.82) cents per unit.

The year end distributions payable are as follows:

- Retail class of 5.16 (June 2020: Nil) cents per unit;
- Wholesale class of 6.88 (June 2020: 0.69) cents per unit; and
- Zero class of 7.66 (June 2020: 1.53) cents per unit.

The prior year final distribution of \$15,093,880 was paid in July 2020.

NOTE 12 – AUDITOR'S REMUNERATION

Audit and tax fees in relation to the Scheme are paid directly by the Responsible Entity. During the year the following fees were paid or payable by the Responsible Entity for services in relation to the audit of the Scheme.

	2021	2020
	\$	\$
Financial statements audit fees	39,059	38,672
Compliance plan audit	4,673	4,627
Tax compliance service	4,164	4,164
Total auditor's remuneration	47,896	47,463

NOTE 13 – RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2021	2020
	\$'000	\$'000
Net profit from operating activities	432,568	38,126
Adjustments for:		
Net realised (gain)/loss on disposal of investments	(7,224)	9,731
Net unrealised (gain)/loss on revaluation of investments	(310,150)	7,077
Dividends and distributions reinvested	(51,172)	(58,758)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(60,926)	9,842
Increase/(decrease) in other payables	11	(159)
Net cash provided by operating activities	3,107	5,859

Non-cash financing and investing activities

During the year dividends and distributions received totalling \$51,172,308 (2020: \$58,758,314) were reinvested for additional units.

During the year income distributions totalling \$31,915,768 (2020: \$53,605,862) were reinvested by unitholders for additional units in the Scheme.

NOTE 14 – RELATED PARTY DISCLOSURES

Australian Ethical Investment Limited (AEIL), as Responsible Entity of each Scheme, provides investment services for the Scheme in accordance with each Scheme's Constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

The Scheme does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Scheme, and this is considered the key management personnel.

The following persons were Directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

- John McMurdo, Managing Director and CEO
- Kate Greenhill
- Stephen Gibbs
- Mara Bun
- Michael Monaghan
- Julie Orr

Some of the Directors indirectly hold units in the Scheme through a superannuation fund.

There were no other persons with responsibility for planning, directing, and controlling the activities of the Scheme, directly and indirectly during or since the end of the financial year.

The Responsible Entity earns fees for the management and administration of the Scheme. Responsible Entity fees charged for the year were as follows:

- 1.75% for the retail class reduced to 1.42% effective 1 June 2021 (2020: 1.75%);
- 0.85% for the wholesale class reduced to 0.76% effective 1 June 2021 (2020: 0.85%); and
- Nil for the zero class (2020: Nil). Institutional investors are included in this class and are subject to separate fee arrangements.

	2021	2020
	\$'000	\$'000
Management fees	2,673	2,448

Fees earned by the Responsible Entity are net of any non-reclaimable GST. Fees payable to the Responsible Entity at 30 June 2021 were \$48,074 (2020: \$37,493) and are included in payables.

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733), a subsidiary of AEIL, is the Trustee of the Australian Ethical Retail Superannuation Fund (AERSF). Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

Parties related to the Scheme held units in the Scheme (zero class) as follows:

	Units held opening	Units held closing	Interest held	Units acquired	Distributions paid/payable by the Scheme
30 June 2021	\$	\$	%	\$	\$
Australian Ethical Retail Super Fund	1,444,095,602	2,107,098,807	76.43	421,236,811	93,918,198

	Units held opening	Units held closing	Interest held	Units acquired	Distributions paid/payable by the Scheme
30 June 2020	\$	\$	%	\$	\$
Australian Ethical Retail Super Fund	1,095,349,739	1,444,095,602	76.70	343,440,266	25,860,608

Distributions paid/payable to related parties represent those distributions that accrued during the current financial year.

The Scheme held investments in the following related parties:

	Units held opening	Units held closing	Interest held	Units acquired/ (disposed)	Distributions paid/payable by the Scheme
30 June 2021	\$	\$	%	\$	\$
Australian Ethical Fixed Interest Fund	433,396,951	630,665,224	77.04	217,494,260	14,434,393
Australian Ethical International Shares Fund	338,392,954	490,700,897	39.64	64,984,533	25,644,633
Australian Ethical Income Fund	93,601,404	163,779,983	50.97	70,790,940	1,396,877
Australian Ethical Diversified Shares Fund	629,537,937	937,674,169	53.57	132,935,489	48,511,141
Australian Ethical Australian Shares Fund	129,621,771	176,222,062	11.33	(407,121)	13,850,423
Australian Ethical Emerging Companies Fund	31,309,667	42,498,163	17.84	(2,526,613)	4,863,516

	Units held opening	Units held closing	Interest held	Units acquired	Distributions paid/payable by the Scheme
30 June 2020	\$	\$	%	\$	\$
Australian Ethical Fixed Interest Fund	340,140,420	433,396,951	72.73	81,318,918	4,455,325
Australian Ethical International Shares Fund	251,971,226	338,392,954	38.81	85,062,547	9,128,144
Australian Ethical Income Fund	69,839,195	93,601,404	37.08	23,535,752	900,416
Australian Ethical Diversified Shares Fund	498,273,319	629,537,937	51.61	164,607,500	15,142,438
Australian Ethical Property Trust	-	-	-	-	676,361
Australian Ethical Australian Shares Fund	84,539,944	129,621,771	9.78	50,997,876	14,222,276
Australian Ethical Emerging Companies Fund	26,432,419	31,309,667	26.97	2,440,722	3,604,025

Distributions paid/payable to the Scheme represent those distributions that accrued during the current financial year.

The Australian Ethical Property Trust was deregistered on 11 September 2017 and subsequently wound up on 22 January 2020.

NOTE 15 – FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Responsible Entity recognises that risk is part of doing business and that the ongoing management of risk is critical to its success. The approach to managing risk is articulated in the Risk Management Strategy and the Risk Appetite Statement. The Chief Risk Officer is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Audit, Risk & Compliance Committee (ARC). The Board regularly monitors the overall risk profile of the Responsible Entity and sets the risk appetite, usually in conjunction with the annual planning process.

The Board is responsible for ensuring that management has appropriate processes in place for managing all types of risk. To assist in providing ongoing assurance and comfort to the Board, responsibility for risk management oversight has been delegated to the ARC. The main functions of the ARC are to identify emerging risks, determine treatment and monitor current and emerging risks. In addition, the ARC is responsible for seeking assurances from management that:

- the systems and policies in place to assist the Responsible Entity to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained;
- the Responsible Entity is complying with its Licences, and the regulatory requirements relevant to its roles as fund manager; and
- there is a structure, methodology and timetable in place for monitoring material service providers

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including operational risk, market risk, credit risk and liquidity risk. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies, and processes for measuring and managing risks and the management of unitholder funds.

(a) Categories of financial instruments

	2021 \$'000	2020 \$'000
Financial assets		
Cash and cash equivalents	30,817	3,147
Financial assets held at fair value through profit or loss	2,742,369	1,861,339
Receivables	94,341	33,414
Total assets	2,867,527	1,897,900
Financial liabilities		
<i>Other financial liabilities</i>		
Payables	48	37
Distribution payable	102,846	15,094
Net assets attributable to unitholders	2,764,633	1,882,769
Total liabilities	2,867,527	1,897,900

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Scheme's activities with financial instruments, either internally within the Scheme or externally at the Scheme's service providers.

The Scheme's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for:
 - appropriate segregation of duties between various functions, roles, and responsibilities;
 - reconciliation and monitoring of transactions; and
 - periodic assessment of operational risk faced;
- documentation of controls and procedures;
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance.

Assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions, monthly/quarterly KPI's, incident reporting, monitoring visits and a review of the service providers' Controls Reports (GS007) on internal controls.

Investment administration of the Scheme is conducted by National Australia Bank Limited Asset Servicing (NAS). Prior to NAS, investment administration of the Scheme was conducted by Australian Ethical Investment Limited. All of the assets of the Scheme are held by external custodian, NAS. The Responsible Entity conducts oversight on the investment administration services provided by NAS and monitors the credit ratings and capital adequacy of its custodian.

(c) Financial risk management objectives

The Scheme is exposed to a number of risks due to the nature of its activities as further set out in its Product Disclosure Statement. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Scheme's objective in managing these risks is the protection and enhancement of unitholder value.

The Scheme's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Responsible Entity Board oversees the processes which govern the investment of money of the Scheme for which Australian Ethical Investment Limited is the Responsible Entity. The Board bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

(d)(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and this will affect the Scheme's income or the fair value of its holdings of financial instruments. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The portfolio manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's Constitution and Product Disclosure Statement. The Scheme's investment mandate is to invest in a range of assets, which may include properties, capital stable interest bearing securities and equity investments, both domestic and international. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

(d)(ii) Interest rate risk

Interest rate risk represents the risk that the Scheme's financial performance will be adversely affected by fluctuations in interest rates.

The Scheme's interest rate risk is managed on a daily basis by the portfolio managers in accordance with the defined investment process and within the guidelines and restrictions outlined in the Scheme's investment mandate. The Scheme is monitored for mandate compliance. Where the interest rate risk exposure moves outside the Schemes' mandate restrictions or guidelines, the portfolio managers will rebalance the portfolios.

The Scheme's exposures to interest rates on financial assets and financial liabilities are detailed in liquidity risk (see Note 15(f)).

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance sheet date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 0.5% (2020: 1%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance sheet date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At balance date, the effect on profit and net assets attributable to unitholders as a result of changes in the interest rate with all other variables remaining constant, would be as follows:

	2021	2020
	\$'000	\$'000
Increase in interest rate by 0.5% (2020: 1% increase)	154	31
Decrease in interest rate by 0.5% (2020: 1% decrease)	(154)	(31)

(d)(iii) Price risk

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Scheme has investments in early-stage venture capital partnerships and unlisted schemes which exposes it to indirect price risk. The investment manager manages the Scheme's market price risk on a daily basis in accordance with the Scheme's investment objectives and policies.

The Scheme's portfolio managers aim to manage the impact of market price risk through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Investments (including derivatives) are only purchased when they meet investment criteria.

As the majority of the Scheme's financial instruments are carried at fair value with changes in fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income, all changes in market conditions will directly affect investment income.

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk (i.e. redemption value for investments in early-stage venture capital partnerships and unlisted trusts) at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unitholders which could result from a change in market prices of 10% (2020: 10%). In the analysis it is assumed that the amount of financial assets exposed to fluctuations in market prices as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

At balance date, the effect on net assets attributable to unitholders and the change in net assets attributable to unitholders as a result of changes in redemption prices with all other variables remaining constant would be as follows:

	2021	2020
	\$'000	\$'000
Increase in redemption prices by 10%	274,237	186,134
Decrease in redemption prices by 10%	(274,237)	(186,134)

As the impact of COVID-19 continues to reverberate around the globe, managing emerging risks has been at the forefront of the Responsible Entity Board and Senior Leadership Team.

A change in the economic environment may have an impact on the Scheme's net assets attributable to unitholders. A heightening in the spread of COVID-19 and any government response, may result in the suspension of unit pricing where information is not available to properly price units, or where pricing units using available information may result in inequity between unitholders.

The COVID-19 impact going forward is unclear in terms of business disruption and the economic environment, however the Scheme has measures in place to manage and respond to the risk as the situation evolves.

(e) Credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is predominately exposed to credit risk through its interest bearing securities, deposits at banks and trade and other receivables.

The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trades within two business days, and other receivables on a monthly basis.

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2021 (2020: AA-).

No financial assets carried at amortised cost were past due or impaired at 30 June 2021 (2020: Nil).

The maximum credit risk exposure is represented by the respective carrying amounts of the relevant financial asset in the Statement of Financial Position.

The table below details the maximum exposure to credit risk for the assets held by the Scheme.

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	30,817	3,147
Receivables	94,341	33,414
Total credit risk	125,158	36,561

(f) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Scheme is exposed to daily cash redemptions of redeemable units. Therefore, the approach to managing liquidity is for the Scheme to invest a significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash (for example, the Scheme's unlisted unit trusts). There is a risk that the Scheme may not be able to liquidate all of these investments at their fair value in order to meet its liquidity requirements. In the event of significant redemptions, the Scheme has the ability to suspend redemptions until it can realise investments to meet the redemptions.

All payables of the Scheme are classed as normal operating obligations and are to be paid within one month of balance date.

The table below details the financial instrument composition and maturity analysis.

	Weighted average interest rate %	2021				Total \$'000
		0-3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	5+ years \$'000	
Variable interest bearing assets						
Cash and cash equivalents	0.05	30,817	-	-	-	30,817
Interest bearing securities	n/a	-	-	-	-	-
Non-interest bearing						
Financial assets	n/a	2,441,540	-	260,184	40,645	2,742,369
Receivables	n/a	94,341	-	-	-	94,341
Total financial assets		2,566,698	-	260,184	40,645	2,867,527
Non-interest bearing						
Payables	n/a	48	-	-	-	48
Distribution payable	n/a	102,846	-	-	-	102,846
Amounts payable to unitholders	n/a	2,463,804	-	260,184	40,645	2,764,633
Total financial liabilities		2,566,698	-	260,184	40,645	2,867,527

	2020					Total \$'000
	Weighted average interest rate %	0-3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	5+ years \$'000	
	Variable interest bearing assets					
Cash and cash equivalents	0.56	3,147	-	-	-	3,147
Interest bearing securities	n/a	-	-	-	-	-
Non-interest bearing						
Financial assets	n/a	1,655,860	-	182,861	22,618	1,861,339
Receivables	n/a	33,414	-	-	-	33,414
Total financial assets		1,692,421	-	182,861	22,618	1,897,900
Non-interest bearing						
Payables	n/a	37	-	-	-	37
Distribution payable	n/a	15,094	-	-	-	15,094
Amounts payable to unitholders	n/a	1,677,291	-	182,861	22,618	1,882,769
Total financial liabilities		1,692,421	-	182,861	22,618	1,897,900

(g) Fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: Using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Derived from valuation techniques that include inputs for the asset or liability that is not based on observable market data (unobservable inputs). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques.

	2021			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Designated at fair value through profit or loss				
Unit trusts				
Unlisted Australian Ethical trusts	-	2,441,540	-	2,441,540
Unlisted property trusts	-	260,184	-	260,184
Unlisted infrastructure	-	-	23,005	23,005
Limited partnership interests	-	-	17,640	17,640
Financial assets at fair value through profit or loss	-	2,701,724	40,645	2,742,369
2020				
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Designated at fair value through profit or loss				
Unit trusts				
Unlisted Australian Ethical trusts	-	1,655,860	-	1,655,860
Unlisted property trust	-	182,861	-	182,861
Unlisted infrastructure	-	-	8,142	8,142
Limited partnership interests	-	-	14,476	14,476
Financial assets at fair value through profit or loss	-	1,838,721	22,618	1,861,339

The Scheme does not hold any Level 1 assets. During the year there were no transfers between levels.

The limited partnership interests represent investments in three separate diversified portfolios of alternative assets held at fair value. The alternative assets represent interests in early-stage venture capital and unlisted infrastructure. The Directors have determined fair value by internal valuation methodology (referencing specialist asset manager valuation techniques) which has regard to the original transaction price, subsequent follow-on investments, and other underlying assets and liabilities of the partnerships (refer Note 9).

In the analysis it is assumed that the amount of financial assets exposed to fluctuations in unobservable inputs as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

For alternative assets, the internal valuation has been adjusted by 10% (2020: 10%). At balance date, the effect on net assets attributable to unitholders as a result of changes defined above with all other variables remaining constant would be as follows:

	2021	2020
	\$'000	\$'000
Increase in alternative assets by 10%	4,064	2,262
Decrease in alternative assets by 10%	(4,064)	(2,262)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Opening balance at 1 July	22,618	22,207
Acquisition of new Level 3 assets	16,494	12,242
Disposals	(129)	(14,741)
Net fair value profit	1,662	2,910
Total Level 3 assets held at fair value	40,645	22,618

CARRYING AMOUNTS VERSUS FAIR VALUE

The fair values of financial assets and liabilities approximates their carrying amounts in the Statement of Financial Position.

NOTE 16 – INVESTMENT IN UNCONSOLIDATED STRUCTURED ENTITIES

The table below describes the types of unconsolidated structured entities that the Scheme does not consolidate but in which it holds an interest. The Scheme has concluded that the unlisted investment schemes and partnerships below meet the definition of structured entities because:

- The voting rights in the entities are not dominant rights in deciding who controls them as they relate to administrative tasks only;
- Each entities' activities are restricted by its Constitution, Product Disclosure Statement and/or Partnership Agreement; and
- The entities have narrow and well-defined objectives to provide investment opportunities.

Type of structured entity	Nature and purpose	Interest held by the Scheme
Investment schemes	To pool investors' savings and invest in a diversified portfolio of securities.	Investments in units issued by the schemes
Early-stage venture capital partnerships	To manage assets on behalf of third-party investors. These vehicles are financed through the issue of partnership interests to investors.	Limited partnership interest

	Fair value as at		Ownership interest	
	30-Jun-21 \$	30-Jun-20 \$	30-Jun-21 %	30-Jun-20 %
Investment schemes				
Australian Ethical International Shares Fund	490,700,897	338,392,954	39.64	38.81
Australian Ethical Income Fund	163,779,983	93,601,404	50.97	37.08
Australian Ethical Diversified Shares Fund	937,674,169	629,537,937	53.57	51.61
Australian Ethical Australian Shares Fund	176,222,062	129,621,771	11.33	9.78
Australian Ethical Fixed Interest Fund	630,665,224	433,396,951	77.04	72.73
Australian Ethical Emerging Companies Fund	42,498,163	31,309,667	17.84	26.97
Property trusts				
Investa Property Group	112,781,331	94,402,149	2.34	1.90
Dexus Healthcare Property Trust	136,574,655	78,097,509	19.99	17.19
Australian Unity Specialist Disability Accommodation Fund	10,829,230	10,361,000	25.67	25.67
Infrastructure				
Morrison & Co Growth Infrastructure Fund	23,005,088	8,142,415	11.18	11.38
Early-stage venture capital partnerships				
Artesian Clean Energy ESVCCLP ILP	4,171,740	2,610,284	22.30	22.30
Right Click Capital Growth Fund	12,580,924	11,865,547	29.62	29.62
CSIRO Innovation Fund 2, LP	886,952	-	2.34	-

Each of the above structured entities is incorporated in Australia.

The maximum exposure or loss is limited to the total fair value of the investment as at the reporting date. The fair value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

The unconsolidated structured entities are managed in accordance with the investment strategy of the respective underlying investment managers. The investment decisions of the structured entities are based on the analysis conducted by the investment manager. The return of the structured entities is exposed to the variability of the performance of the underlying investment strategies.

The investment managers receive a management fee for undertaking the management of these investments. Income is received from non-related structured entities in accordance with Constitutions or Partnership Agreements.

Unconsolidated subsidiaries

The Scheme has determined that it is an investment entity under the definition in AASB 10 as it meets the following criteria:

- a) It obtains funds from one or more investors for the purpose of providing those investors with investment management;
- b) Its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- c) It measures and evaluates the performance of all of its investments on a fair value basis.

Accordingly, the Scheme applied the investment entity exemption to consolidation and measured the following subsidiaries at fair value through profit or loss.

Subsidiaries and associates	30-Jun-21 \$	30-Jun-20 \$	30-Jun-21 %	30-Jun-20 %
Australian Ethical Fixed Interest Fund	630,665,224	433,396,951	77.04	72.73
Australian Ethical Diversified Shares Fund	937,674,169	629,537,937	53.57	51.61
Australian Ethical Income Fund	163,779,983	93,601,404	50.97	37.08

Each of the above subsidiaries and associates is incorporated in Australia.

NOTE 17 – COMMITMENTS

As at 30 June the Scheme has unpaid commitments to two early-stage venture capital funds being Right Click Capital of \$2,302,165 (June 2020: \$3,422,890) and Artesian Clean Energy of \$1,475,000 (June 2020: \$3,097,500). The investment period within which the commitments may be called is within one to two years from reporting date. The Scheme also has outstanding unpaid commitments to the Morrison & Co. Growth Infrastructure Fund of \$44,610,311 (June 2020: \$49,516,282) which may be called over an investment period of 4 years from reporting date. During the year the Scheme committed to a \$4,000,000 investment into the CSIRO Innovation 2 LP Fund. As at 30 June 2021 the Scheme has a \$3,075,387 unpaid commitment to the Fund. The investment period within which the commitments may be called is within 5 years from reporting date.

NOTE 18 – CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2021 (2020: Nil).

NOTE 19 – EVENTS SUBSEQUENT TO THE REPORTING DATE

As the investments in the Scheme are measured at their 30 June 2021 fair values in the financial report, any volatility in values subsequent to the balance date is not reflected in the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Financial Position. However, the current value of investments is reflected in the current unit price.

Management continue to monitor the impact of the ongoing COVID-19 pandemic in Australia and have assessed that there are no changes required to the financial statements subsequent to the end of the financial year. Other than disclosed in Note 17, during the period between the end of the financial year and the date of this report, there were no items, transactions, or events of a material and unusual nature likely in the opinion of the Responsible Entity, to significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

Directors' Declaration

Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Balanced Fund (the "Scheme):

- a) The annual financial statements and notes that are set out on pages 12 to 38 are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the Scheme's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
 - ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and
- b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable.
- c) The Scheme has operated during the year in accordance with the provisions of the Scheme's Constitution.

The Directors draw attention to Note 1 of the financial statements which contains a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors of Australian Ethical Investment Limited.



John McMurdo
Managing Director
Australian Ethical Investment Limited
21 September 2021

Independent Auditor's Report



Independent Auditor's Report

To the unitholders of Australian Ethical Balanced Fund

Opinion

We have audited the **Financial Report** of the Australian Ethical Balanced Fund (the Scheme).

In our opinion, the accompanying **Financial Report** of the Scheme is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Scheme's financial position as at 30 June 2021, and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises

- Statement of financial position as at 30 June 2021;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Scheme in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Australian Ethical Balanced Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.



In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

Andrew Reeves
Partner

Sydney
21 September 2021